

POST ROCK RURAL WATER DISTRICT NO. 1
Ellsworth, Kansas

FINANCIAL STATEMENTS
Years Ended December 31, 2009 and 2008

VONFELDT, BAUER & VONFELDT, CHTD.
Certified Public Accountants
Larned, Kansas 67550

Post Rock Rural Water District No. 1
Financial Statements
Years Ended December 31, 2009 and 2008

TABLE OF CONTENTS

<u>Item</u>	<u>Page Number</u>
Independent Auditors' Report	1
Balance Sheet	2-3
Statement of Operations	4
Statement of Changes in Retained Earnings	5
Statement of Cash Flows	6
Notes to the Financial Statements	7-9

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Post Rock Rural Water District No. 1
Ellsworth, Kansas

We have audited the accompanying balance sheets of Post Rock Rural Water District No. 1, Ellsworth, Kansas, as of December 31, 2009 and 2008, and the related statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Post Rock Rural Water District No. 1, Ellsworth, Kansas, as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 9 to the financial statements, the Company is in default on certain covenants of its loan agreements at December 31, 2009. The lenders may demand repayment of the loans although no such demand has been made. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

VONFELDT, BAUER & VONFELDT, CHARTERED
Certified Public Accountants

February 5, 2010

POST ROCK RURAL WATER DISTRICT NO. 1
 ELLSWORTH COUNTY, KANSAS
 BALANCE SHEET
 December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash on Hand	\$ 250.00	\$ 150.00
Cash in Bank	283,707.98	327,223.32
Certificates of Deposit (Note 2)	5,000.00	5,000.00
Accounts Receivable (Note 4)	21,526.17	868.32
Interest Receivable	12.00	39.50
Inventory (Note 8)	131,816.08	108,322.81
Prepaid Expenses	<u>73,628.78</u>	<u>61,693.57</u>
 Total Current Assets	 <u>\$ 515,941.01</u>	 <u>\$ 503,297.52</u>
 INVESTMENTS:		
Co-op Stock and Deferred Prorations (Note 3)	<u>\$ 2,488.16</u>	<u>\$ 1,886.44</u>
 PROPERTY, PLANT AND EQUIPMENT: (Note 6)		
Land	\$ 25,787.02	\$ 25,787.02
Buildings	195,291.81	172,443.51
Office Furniture & Equipment	252,605.09	246,263.46
Vehicles	238,529.96	204,761.96
Water System	14,064,743.55	13,833,546.12
System Start-Up Costs	1,832,224.10	1,832,224.10
Less - Accumulated Depreciation & Amortization	<u>(7,762,705.08)</u>	<u>(7,382,900.32)</u>
 Net Property, Plant and Equipment	 <u>\$ 8,846,476.45</u>	 <u>\$ 8,932,125.85</u>
 Total Assets	 <u>\$ 9,364,905.62</u>	 <u>\$ 9,437,309.81</u>

The accompanying notes are an integral part of these financial statements

POST ROCK RURAL WATER DISTRICT NO. 1
 ELLSWORTH COUNTY, KANSAS
 BALANCE SHEET
 December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<u>LIABILITIES AND EQUITY</u>		
CURRENT LIABILITIES:		
Accounts Payable	\$ 53,575.09	\$ 94,389.67
Interest Payable	5,444,107.42	5,041,789.12
Current Portion of Capital Lease (Note 10)	19,032.97	20,067.90
Current Portion of Long-Term Debt (Note 10)	<u>3,092,890.93</u>	<u>2,765,151.91</u>
Total Current Liabilities	<u>\$ 8,609,606.41</u>	<u>\$ 7,921,398.60</u>
LONG TERM LIABILITIES:		
Capital Lease, less current portion (Note 10)	\$ 0.00	\$ 20,897.98
Long-Term Debt, less current portion (Note 10)	<u>2,621,289.55</u>	<u>2,949,028.57</u>
Total Long-Term Liabilities	<u>\$ 2,621,289.55</u>	<u>\$ 2,969,926.55</u>
Total Liabilities	<u>\$ 11,230,895.96</u>	<u>\$ 10,891,325.15</u>
FUND BALANCES:		
Membership Benefit Units		
Balance, January 1	\$ 1,061,363.61	\$ 1,047,008.61
Sales of Units During Year	<u>15,625.00</u>	<u>14,355.00</u>
Balance, December 31	\$ 1,076,988.61	\$ 1,061,363.61
RETAINED EARNINGS	<u>(2,942,978.95)</u>	<u>(2,515,378.95)</u>
Total Members' Equity	<u>\$ (1,865,990.34)</u>	<u>\$ (1,454,015.34)</u>
Total Liabilities and Equity	<u>\$ 9,364,905.62</u>	<u>\$ 9,437,309.81</u>

The accompanying notes are an integral part of these financial statements

POST ROCK RURAL WATER DISTRICT NO. 1
 ELLSWORTH COUNTY, KANSAS
 STATEMENT OF OPERATIONS
 For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Facility Revenue	\$ 1,561,823.11	\$ 1,433,991.95
Operating Expenses		
Payroll Expenses	\$ 423,743.30	\$ 396,236.97
Employee Benefits	104,520.17	81,257.72
Insurance	58,625.45	55,070.76
Interest	403,691.31	402,640.52
Depreciation	336,621.73	317,043.51
Amortization	45,805.61	45,805.61
Office Expense	32,195.66	31,011.50
Utilities	162,172.91	163,003.23
Rent	73,825.52	43,075.10
Janitor	8,317.49	1,580.79
Meeting Expense	6,292.01	6,116.01
Professional Services	27,924.22	122,033.05
Distribution Expense	314,976.16	531,617.69
Water Purchases	47,188.41	49,554.24
Treatment Plant Expense	197,323.58	149,140.89
Automotive Expense	74,148.29	78,368.97
Dues, Conferences & Schooling	12,951.00	7,333.70
Travel & Entertainment	4,810.10	0.00
Shop Expense	3,358.53	3,300.48
Watershed Expense	3,905.50	2,090.07
Miscellaneous	<u>812.58</u>	<u>1,263.83</u>
Total Operating Expenses	\$ 2,343,209.53	\$ 2,487,544.64
Net Income (Loss) from Operations	\$ <u>(781,386.42)</u>	\$ <u>(1,053,552.69)</u>
Other Income		
Interest Income	\$ 1,258.61	\$ 4,088.67
Miscellaneous Income	19,368.87	37,819.31
Grant Income	196,193.58	0.00
Customer Service & Repair	135,165.36	129,677.61
Sale of Equipment	<u>1,800.00</u>	<u>0.00</u>
Total Other Income	\$ 353,786.42	\$ 171,585.59
Net Earnings (Loss)	\$ <u><u>(427,600.00)</u></u>	\$ <u><u>(881,967.10)</u></u>

The accompanying notes are integral part of these financial statements.

POST ROCK RURAL WATER DISTRICT NO. 1
 ELLSWORTH COUNTY, KANSAS
 STATEMENT OF CHANGES IN RETAINED EARNINGS
 For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Balance, Beginning of Year	\$ (2,515,378.95)	\$ (1,633,411.85)
Net Earnings (Loss)	<u>(427,600.00)</u>	<u>(881,967.10)</u>
Balance, End of Year	<u>\$ (2,942,978.95)</u>	<u>\$ (2,515,378.95)</u>

The accompanying notes are an integral part of these financial statements

POST ROCK RURAL WATER DISTRICT NO. 1
 ELLSWORTH COUNTY, KANSAS
 STATEMENT OF CASH FLOWS
 For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<u>Cash Flow From Operating Activities</u>		
Net Income	\$ (427,600.00)	\$ (881,967.10)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation & Amortization	382,427.34	362,849.12
Patronage Dividends Received in the Form of Stock	(601.72)	(933.72)
Gain on Sale of Equipment	(1,800.00)	0.00
(Increase) Decrease in:		
Trade Receivables	(20,657.85)	1,646.80
Other Receivables & Prepaid Expenses	(35,400.98)	(13,327.44)
Increase (Decrease) in:		
Trade Accounts Payable	(40,814.58)	42,508.99
Interest Payable	<u>402,318.30</u>	<u>402,318.32</u>
Net Cash Provided By Operating Activities	<u>\$ 257,870.51</u>	<u>\$ (86,905.03)</u>
<u>Cash Flow From Investing Activities</u>		
Purchases of Equipment and Land	\$ (296,777.94)	\$ (88,137.15)
Redemption of Short Term Investments	0.00	0.00
Net Proceeds on Sale of Equipment	<u>1,800.00</u>	<u>0.00</u>
Net Cash Provided By Investing Activities	<u>\$ (294,977.94)</u>	<u>\$ (88,137.15)</u>
<u>Cash Flow From Financing Activities</u>		
Sale of Membership Benefit Units	\$ 15,625.00	\$ 14,355.00
Issuance of Capital Leases	0.00	44,528.00
Debt Reduction	<u>(21,932.91)</u>	<u>(3,562.12)</u>
Net Cash Provided By Financing Activities	<u>\$ (6,307.91)</u>	<u>\$ 55,320.88</u>
Net Increase (Decrease) In Cash	\$ (43,415.34)	\$ (119,721.30)
Cash At Beginning Of Year	<u>327,373.32</u>	<u>447,094.62</u>
Cash At End Of Year	<u>\$ 283,957.98</u>	<u>\$ 327,373.32</u>

Supplemental Disclosures

Interest Paid	<u>\$ 0.00</u>	<u>\$ 0.00</u>
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The accompanying notes are an integral part of these financial statements

POST ROCK RURAL WATER DISTRICT NO. 1
ELLSWORTH COUNTY, KANSAS
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The Post Rock Rural Water District was incorporated March 5, 1979. The District was financed by the sale of benefit units to members. A grant related to Phase I Construction for \$5,018,000 was approved from Farmers Home Administration and \$1,421,000 was received during 1984. A grant for \$350,000 was approved from the E.D.A. in 1982. Grants totaling \$3,485,000 were received during 1985. Grants totaling \$184,000 were received during 1986. A grant of \$2,900,000 was approved from Farmers Home Administration related to Phase II Construction and related costs. Grants totaling \$1,374,000 were received in 1986. Grants in 1987 amounted to \$1,978,608. Grants received in 1996 for additional construction amounted to \$500,000.
- B. The records of Post Rock Rural Water District No. 1 are reported on the accrual basis of accounting. Revenues are recognized in the accounting period when they become both measurable and available to finance expenditures of the fiscal period. Expenditures are recognized whenever any indebtedness is created.
- C. Investments are valued at cost. See Note 3.
- D. Property, plant and equipment is recorded at cost, (including amounts under capital leases). When individual items are sold or disposed of, the related cost and accumulated depreciation is removed and the resulting gain or loss is included in the results of operations. The straight-line method is used in computing depreciation based on the useful lives of the individual assets (including capital leases). Major repairs are capitalized, other maintenance and repair items are expensed as incurred.
- E. Inventory consists primarily of equipment and supplies and are stated at the lower of cost (first-in, first-out) or market.
- F. Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from these estimates.
- G. System start-up costs subjected to amortization include legal fees, bond issue fees, easements, engineering fees, capitalized interest and condemnation fees. System start-up costs are being amortized on a straight-line basis over a forty year period.

Note 2 - CERTIFICATES OF DEPOSIT

Certificates of deposit totaling \$5,000.00 bearing an interest rate of 3.95% and matures annually, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

Note 3 - INVESTMENTS

Investments consist of stock and deferred prorations in the Ellsworth County Co-op. Investments are carried in the financial statements at cost, which approximates fair value.

Note 4 - ACCOUNTS RECEIVABLE

Accounts receivable is comprised of amounts due from benefit users for additional construction costs specifically related to serving that customer.

Note 5 - CASH & CASH EQUIVALENTS

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments with a maturity of one month or less to be cash equivalents.

Note 6 - PROPERTY, PLANT & EQUIPMENT

A summary of property, plant and equipment at December 31, 2009 and 2008, is as follows:

	<u>2009</u>	<u>2008</u>
Land	\$ 25,787.02	\$ 25,787.02
Buildings	195,291.81	172,443.51
Equipment and vehicles	491,135.05	451,025.42
Water System	<u>15,896,967.65</u>	<u>15,665,770.22</u>
	<u>\$ 16,609,181.53</u>	<u>\$ 16,315,026.17</u>

Depreciation expense for the years ended December 31, 2009 and 2008, was \$336,621.73 and \$317,043.51, respectively. Amortization of Water System Start-Up costs for the years ended December 31, 2009 and 2008, was \$45,805.61 and \$45,805.61, respectively.

Substantially all property, plant & equipment is held as collateral for FHA.

Note 7 - LEASES

The company enters into both cancelable and noncancelable operating leases . The cancelable leases expire annually. The future minimum rental payments on the noncancelable leases are as follows:

December 31, 2010	<u>\$ 67,200.00</u>
	<u>\$ 67,200.00</u>

Lease and rent expense for the years ended December 31, 2009 and 2008 was \$73,825.52 and \$43,075.10, respectively.

Note 8 - INVENTORY

Inventory is stated at the lower of cost (determined on the first in, first-out basis) or market. Inventories consisted of the following:

	<u>2009</u>	<u>2008</u>
Parts and supplies	<u>\$ 131,816.08</u>	<u>\$ 108,322.81</u>

Note 9 - CONTINGENCIES

As shown in the accompanying financial statements, the Company incurred net losses from operations of \$781,386.42 and \$1,053,552.69 for the years ended December 31, 2009 and 2008 respectively. The Company's current liabilities exceeded its current assets by \$8,093,665.40 at December 31, 2009, and \$7,418,101.08 at December 31, 2008. Those factors, as well as the uncertain conditions that the Company faces regarding its loan agreements (as discussed in Note 10), create an uncertainty about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Note 10 - NOTES PAYABLE

Notes payable are as follows:

<u>Construction Phase</u>	<u>Original Loan</u>	<u>Date</u>	<u>Period</u>	<u>Interest Rate</u>
Phase I	\$ 3,463,000.00	11/28/1984	40 Years	7 1/2%
Phase II	3,000,000.00	03/11/1986	40 Years	6 5/8%
Capital Lease:				
Bobcat Excavator & Trailer	44,528.00	12/01/2008	24 Months	4.43%
			<u>Outstanding Balance 2009</u>	<u>Outstanding Balance 2008</u>
Amount FHA:				
Phase I			\$ 2,714,725.66	\$ 2,714,725.66
Phase II			2,999,454.82	2,999,454.82
Capital Lease:				
Bobcat Excavator & Trailer			<u>19,032.97</u>	<u>40,965.88</u>
Total Notes Payable			\$ 5,733,213.45	\$ 5,755,146.36
Less - portion due within one year			<u>3,111,923.90</u>	<u>2,785,219.81</u>
Total Long-Term Notes Payable			<u>\$ 2,621,289.55</u>	<u>\$ 2,969,926.55</u>

Interest expense for the years ended December 31, 2009 and 2008 was \$403,691.31 and \$402,640.52, respectively, none of which was capitalized.

Notes payable mature during the years ended December 31, in the following amounts:

<u>Year</u>	<u>Principal Due</u>
2010	\$ 3,111,923.90
2011	352,469.25
2012	379,070.64
2013	407,685.10
2014	438,465.47
Thereafter	<u>1,043,599.09</u>
Total	<u>\$ 5,733,213.45</u>

The original interest rate on the Phase I loan was 8 3/8%. According to P.L.-9998, the Water District was allowed to request the lower rate on (1) the date the loan was approved, or (2) the date the loan closed. This law was retroactive, when it became effective, so the Water District was eligible for the lower rate. Both loans allow for payment of interest only for the first two years with principal and interest payments commencing on the third anniversary date of the respective loans. Monthly payments will be \$25,246 per month for the Phase I loan, and \$18,030 per month for the Phase II loan. The payments on the Phase I and II notes have not been made as required by the original loan. The total accrued interest-unpaid, is reflected on the balance sheet.